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THE NATIONAL DEBT OF CHINA—ITS ORIGIN AND ITS SECURITY

BY CHARLES DENBY,

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The public indebtedness of China has been incurred almost entirely during the past twenty-five years—practically all from foreign bankers, governments, and firms. In spite of her enormous national resources and gigantic wealth, the people of China have never been called upon to float a government loan, and hence only an insignificant portion of China's indebtedness is in the hands of Chinese investors. In fact China has not furnished much even of the capital that enters into companies operated within her borders.

Such undertakings as railways, mines, land development companies, traction companies, waterworks, electric light plants, etc., have usually been initiated by foreigners, have been established by foreign capital, and participation therein on the part of the Chinese has been limited.

REASONS FOR BORROWING ABROAD

The reasons are not far to seek. In the first place, the Chinese have for centuries distrusted their officials, and any undertaking of an official character has appealed in vain for private capital. As a rule it is only when foreigners are interested in the control of a venture that the Chinese capitalist cares to invest. This is the main reason why that country with its great natural resources, large domestic trade and keen commercial instinct has such a low standard of wealth.

Wealth to the Chinese has meant lands, houses, cattle and accumulations of silver. When a merchant made more money he bought more lands and houses, and stored more silver bullion. Chinese capitalists have not become accustomed to capitalizing their lands and their business undertakings, and issuing share certificates against them. This they have only lately learned from their association with foreigners, and this together with the distrust

of government undertakings, above alluded to, goes far to account for the small holdings of Chinese securities within the borders of China itself.

The loans of China are expressed in *taels*, or Chinese ounces of pure silver, and in nearly all cases the rate of exchange is fixed in sterling for payment, so as to avoid the fluctuations in the value of silver. The tael, consisting of a weight of silver uncoined, is the unit of value throughout China. The tael is cast into "shoes" as they are called, or blocks of silver, weighing 1, 10, 25, and 50 ounces. The Chinese ounce is about $1\frac{1}{3}$ English oz. av., but varies in different localities. There exists a variety of taels, for example—the Haikuan or "customs" tael, in which the duties are paid; the Kuping or "treasury" tael, in which all government accounts, except duties, are tabulated, and the taels of various markets such as the Peking tael, and the taels of Tientsin, Shanghai, Canton, Hankow, and other cities—all varying slightly in weight from one another.

The exchange value between the more important taels are as follows:

100 Haikuan (or customs taels)=	101.64295 Kuping taels
	105.215 Tientsin taels
	111.400 Shanghai taels

The Kuping, or treasury tael, is the standard usually adopted for foreign loans, though the Boxer indemnity of 1900, hereafter referred to, was set in Haikuan taels.

The tael is not usually offered in ordinary commercial transactions, but payments are made in bank notes issued by native or foreign banks, expressed in taels, or in Mexican dollars, which have an approximate though sometimes variable tael value in every market. The banks, however, pay in the settlement of their accounts large masses of bar silver by weight, and the traveler in the inland districts often finds it necessary to take a "shoe" of so many taels of silver to the local banker, and have a portion of it cut off with a large chopper, which portion is exchanged for copper or for silver coinage.

WAR AND INDEMNITY LOANS

The present outstanding foreign indebtedness of China without exception began to be incurred within the last twenty-five

years, namely, just before the war with Japan in 1894-1895. The oldest existing loan of China is in fact for taels 10,000,000—equal to 1,635,000 pounds sterling, incurred from the Hongkong-Shanghai Banking Corporation, to prosecute the war against Japan. At the termination of the war Japan exacted from China an indemnity of taels 230,000,000, which was used to place her currency on a gold basis. This loan was entirely raised from foreign sources, namely, from British, German and French banks, and from foreign governments. The total amount of these Japanese war loans, including the Japanese indemnity of taels 230,000,000, was £54,455,000, of which £36,345,777 was outstanding in 1914, requiring annually for interest and amortization, nearly £3,000,000.

Since the Japanese war of 1894-1895 China has been free from foreign war, that is, war actually declared against a foreign power. But in 1900, a domestic rebellion in China, known as the Boxer uprising, involved that unfortunate government in the heaviest indebtedness that it has ever incurred. The Boxer uprising began in the spring of 1900, as a Chinese uprising primarily directed against the Manchu dynasty, but taking the form in June, 1900, of an anti-foreign movement, abetted by the Manchu imperial family. All of the foreign powers, namely—the United States with France, Germany, Great Britain, Italy, Japan, and Russia, despatched troops to North China to protect their nationals there resident. The officially declared view of the United States government in taking this action was that it was aiding the Chinese government to put down a domestic rebellion. The facts are, however, that the expeditionary corps of all the above powers found themselves an invading army in open warfare with the armies of China, as well as with the hordes of Boxers, congregated under their own banners.

After the restoration of order the Chinese government was called upon to pay the entire cost of the expeditions, as well as to reimburse foreigners of all nationalities in China for their losses through the uprising. The total amount of this indemnity was taels 450,000,000 which converted into sterling at three shillings per tael amounts to £67,500,000.

The annexed table shows the nations participating in this indemnity. (See Table A.)

A. INDEMNITY AND WAR LOANS.
TABLE TAKEN FROM THE CHINA YEAR BOOK FOR 1914.

Date.	Title, source, etc.	Principal amount.	Interest per cent.	Price of issue.	Amount received by Chinese Government.	Term of redemption.		Charge (interest) for 1913.	Charge (principal) for 1913.	Principal paid off to Dec. 31st, 1913.	Principal outstanding, Dec. 31st, 1913.	Total charge (interest and principal) for 1914	Security.
						Years.	Date.						
1894	Hongkong and Shanghai Bank (War Loan).....	Tls. 10,900,000 =£1,635,000	7	98	..	20	1914	Tls. 76,300 £ 24,000	Tls. 1,090,000 £ 200,000	Tls. 10,900,000 £ 2,800,000	Nil.	Nil.	Revenue of Maritime Customs.
1895	Hongkong and Shanghai Bank (War Loan).....	£3,000,000	6	96½	92	20	1915	12,000	66,700	866,700	200,000	212,000	Revenue of Maritime Customs.
1895	Chartered Bank of India etc. (Cassell Loan).....	£1,000,000	6	106	95½	20	1915	9,999	66,700	866,700	133,300	74,598	Revenue of Maritime Customs. Kiangsu Salt taxes and likin and revenue of Maritime Customs.
1895	Arnhold, Karberg and Co. (Nanking Loan).....	£1,000,000	6	104½	..	20	1915	439,420	397,250	5,231,748	10,588,252	836,670	Revenue of Maritime Customs and Russian Govt. guarantee.
1895	Franco-Russian Government Loan.....	Fcs. 400,000,000 =£15,820,000	4	96½	94½	36	1931	593,407	364,425	4,314,075	11,685,925	957,404	Maritime Customs revenue.
1896	Anglo-German Government Loan.....	£16,000,000	5	98½	94	36	1932	617,027	213,400	2,395,000	13,605,000	830,208	Revenue of Maritime Customs and first charge on three salt taxes and four likin revenues.
1898	Anglo-German Government Loan.....	£16,000,000	4½	90	83	45	1943						

BOXER INDEMNITY:

1901 A Tls. 75,000,000 A 3st.....	4	..	..	39 1940	£ 574,425**	Amortization	Total charges	£	Balance of revenues of
1901 B Tls. 60,000,000 A 3st.....	4	..	..	39 1940	520,470**	begins 1915†	outstanding	574,425	Maritime Customs after
1901 C Tls. 150,000,000 A 3st.....	4	..	..	39 1940	900,000	begins 1915†	£	520,470	payment of pre-existing
1901 D Tls. 50,000,000 A 3st.....	4	..	..	39 1940	300,000	begins 1932‡	£	900,000	charges, Native Customs
1901 E Tls. 115,000,000 A 3st.....	4	..	..	39 1940	690,000	begins 1932‡	10s	300,000	revenues at open ports, and
1905 Hongkong and Shanghai and								690,000	salt gabelle.
Deutscher-Austriache Banks (Ex-									
change Adjustment of Indem-									
nity)†.....	5	97	..	(1925) 1915	6,250	£ 50,000	850,000††	150,000	57,750 Peking Octroi, and Shansi likin.

† Shanghai currency at 3s per Tael.

** Fixed annual charge for amortization and interest which began in 1902 on "A" and 1911 on "B."

† When fixed annual charge for amortization and interest will be £1,407,600.

‡ When fixed annual charge for amortization and interest will be £480,075.

§ When fixed annual charge for amortization and interest will be £2,319,925 10s.

†† The following table shows the manner in which the indemnity was divided:—

Proportion

Haikuan

Tael.

per cent.

Germany.....

Austria-Hungary.....

Belgium.....

Spain.....

United States.....

France.....

Great Britain.....

Portugal.....

Italy.....

Japan.....

Holland.....

Russia.....

Norway and Sweden.....

Sundry.....

£500,000 additional paid off in 1907.

Foreign

Currency.

278,166,423.93

10,394,092.40

31,816,293.75

507,431.25

24,440,778.75

265,793,400.00

7,593,080.19

13,837.17

99,803,768.75

48,950,891.70

1,404,651.60

180,084,021.44

9,432.00

22,450.10

(of which \$10,785,286.12 was remitted in 1908)

THE BOXER INDEMNITY

This debt China agreed to pay in a term of 39 years, with interest at 4 per cent. The amortization began January 1, 1902, to finish at the end of 1940.

A single bond for the entire sum was issued to the Doyen of the diplomatic corps at Peking, then the German minister, Mr. von Mumm. This bond was subsequently converted into fractional bonds and payments on these bonds are now made to an international commission of bankers at Shanghai which divides such payments among the interested parties. These payments are made by the Chinese government according to the table which was made a part of the Peace Protocol of 1901. The total charges for this indemnity—principal and interest, are £112,961,212, 10 shillings, and the fixed charge for 1916 was taels 24,483,800, or £2,772,500.

The security pledged for the "Boxer indemnity," as it is called, and for the Japanese war and indemnity loans above referred to is the revenue of the Imperial Maritime customs, supplemented in some cases by likin or internal revenue taxes, salt taxes, and the octroi of cities.

This leads to an inquiry as to what these various pledged revenues consist of.

THE REVENUES OF THE CHINESE GOVERNMENT

The imperial maritime customs constitute the chief, and until the reorganization within the last three years of the government salt tax, the most reliable source of income of the Chinese government. The maritime customs service is organized under foreign administration, and is charged with the collection of all of the imports duties, levied by China on goods imported from abroad, and certain other taxes on foreign ships and goods. This customs service had its origin in 1853, when the city of Shanghai was menaced by the great Taiping rebellion, and the local government ceased to function. The consuls of the United States and of Great Britain collected the import duties on account of the central government. From that time on the "customs service," as it is known, has continued to collect all import duties, and its scope has been further enlarged by charging it with the collection (1) of duties on goods carried in foreign bottoms in the coast trade; (2) tonnage

duties on shipping; (3) all duties on goods imported which are carried further inland and are subject to fixed duties on the way; (4) the likin or special tax on imported opium. This service collects an annual revenue of taels 40,000,000, equal at the approximate present rate of taels for United States dollars, to about \$30,000,000. The actual rate varies daily with the quotation for bar silver.

This revenue is honestly collected and actually devoted to the purpose for which it is supposed to be devoted. It is largely appropriated at present for the service of the loans and indemnities above referred to, and it is also charged with the maintenance of the foreign diplomatic and consular service of China. As, however, these loans are being gradually wiped out by amortization, and as the revenues of the customs service will increase with the normal increase in trade, the customs service could offer excellent security for any future loans, the requirements of which should not exceed its revenue.

The likin or internal revenue tax is far less satisfactory as a security for loans. This was originally a war tax devised by the Chinese government to meet its emergencies during the Taiping rebellion. It is a tax levied at barriers established at places throughout the interior through which goods in transit must pass. It is subject to great abuse and corruption. It is usually wholly or in part evaded—often it is unjustly increased—and the proceeds are rarely properly accounted for. Hence the foreign powers have long insisted that the likin tax be abolished, and China has repeatedly undertaken that this should be done. The tax, however, continues among the sources of Chinese revenue. It was estimated that in 1912 it produced about taels 24,389,337, something over \$18,000,000, at the rate of \$.75 gold per tael.

In spite of the general foreign disapproval of the likin taxes, they are not infrequently included in the revenue pledged for railway and other general loans. The inclusion of these taxes as security for the Boxer indemnity is believed to have a special explanation; the foreign powers having probably exacted a pledge of this revenue with a view to controlling it, for the purpose of eventually suppressing it.

The octroi or levy of taxes on merchandise upon its introduction into Chinese cities is subject to the same criticism as the likin taxes. Neither can be regarded as satisfactory security for a loan

of any duration, and it is certain that upon the reform of China's general scheme of taxation, which the commercial world hopes for, both will be abolished. Much favorable comment was excited by the declaration of the Republic of China upon its coming into existence in 1913, that the *likin* taxes should be abolished.

CHINESE RAILWAYS LOANS

The second large group of Chinese government debts covers the railway loans of China, which amounted up to 1914 to £52,157,000, of which £1,402,892 have been repaid, leaving somewhat over £50,000,000 outstanding. All of these loans with the exception of £2,300,000 contracted in 1898, of which nearly £600,000 has been repaid, and the Belgian loan of 1898 for £4,500,000, which has been repaid in full, were contracted since 1900.

The annexed table taken from the China Year Book of 1914, the last edition published, gives the details of these loans. (See Table B.)

Redemption payments on these began or will begin at various times from 1914 to 1920. It is to be noticed that the security pledged for these railways loans is the railway itself with the government's guarantee, and in some cases, certain taxes in addition. As a matter of fact, the railways of China have been found to be ample security. The figures for six months ending December 31, 1914, show that China's fourteen main railway lines all were run at a profit, showing a total net revenue of \$2,300,000—this in spite of the depressing influence of the European war, which has greatly cut down the carriage of ocean-borne goods. The 1914 revenues were much lower than in the preceding year. These roads all pay, and if discreetly managed will continue to pay. It is probable that the accuracy of control of finances demanded by the foreigners who have advanced money on them has compelled a careful management—at variance with the usual Chinese practice. There is no knowing how soon the principle of "squeeze," the arch enemy of Chinese finance, would bring about disorders, were it not for severe foreign auditing.

AN INJURY TO AMERICAN PRESTIGE

Among the railway loans of China we must note one of particular interest to Americans; the Hankow-Canton railway contract

for £1,100,000. The circumstances which gave rise to this loan were as follows:

An American syndicate had secured the contract to build a line from Hankow to Canton, a distance of 700 miles; the first survey had been made, the road promised in every way to be profitable, and the American holders of the stock found opportunities to sell part of their holdings abroad. Among others the King of Belgium, whose nationals had signed a contract to build a line from Hankow to Peking, became a heavy buyer. It is probable that he was influenced to buy by the natural desire to have some standing in the control of a road destined to be so closely connected in operation with the Belgian owned line.

It seems, however, that the government of the British colony at Hongkong had never been pleased with the prospect of railway construction in the vicinity of that colony falling into the hands of Americans, and the Hongkong authorities represented to the Chinese that the sale of shares to the King of the Belgians was a violation of the American contract which provided that the line should not be ceded to other than Americans. The Chinese government probably had no feelings whatever on this subject, but it suited the purpose of the Hongkong government, backed by some Chinese of influence, to represent that there was such bitter feeling in the country traversed by the road over the bad faith of the American concessionaries that the Americans would not be permitted to continue the construction thereof. This representation coupled with an offer of a handsome profit on the outlay led American capitalists to sell back their concession to the Chinese. When it was realized that the money which China paid was actually provided by Hongkong, the true nature of the transaction became apparent. The American holders of the concession had given up a valuable franchise because British policy conflicted with it, and incidentally American prestige received a blow from which it has not yet recovered.

Up to the present time China has not tried to finance her roads by the selling of shares. She has always borrowed on mortgage bonds, which she hastens to pay up, thus eating up the earnings and showing small profits on operation. With the actually large earning power of the Chinese railways, large stock dividends could easily be declared, which would increase the value of the stock so

B. RAILWAY LOANS.

Date.	Title, source, etc.	Principal amount.	Interest per cent.	Price of issue.	Amount received by Chinese Government.	Term of redemption.		Charge (interest) for 1912.	Charge (principal) for 1912.	Principal paid off, Dec. 31st, 1912.	Principal outstanding on Dec. 31st, 1912.	Total charge (interest and principal) for 1913.	Security.
						Years.	Date.						
1898	British and Chinese Corporation Loan for Imperial Railways in North China.	2,300,000	6	97	90	45	1944	92,000	57,000	517,500	1,782,500	146,626	{ Government guarantee and revenues of railway. Railway to be handed over in case of default.
1898	Franco-Belgian Loan for Peking-Hankow Railway.	4,500,000	5	..	90	30	1928	Redeemed in 1908					
1902	Russo-Chinese Bank Loan for Shansi Railway (floated in France).	1,600,000	5	..	90	30	1931	80,000	(First instalment due 1915)		1,600,000	80,000	Government guarantee and revenue of railway.
1903	Franco-Belgian Loan for Kai-fengfu-Honan Railway.	1,000,000	5	..	90	30	1934	50,000	(First instalment due 1915)		1,000,000	50,000	Revenue of railway.
1904	British and Chinese Corporation Loan for Shanghai-Nanking Railway.	2,250,000	5	97½	90	50	1953	{ 145,000 (To be redeemed in full 1953)			2,900,000	145,000	Profits of and mortgage upon the railway.
1907	British and Chinese Corporation Loan for Shanghai-Nanking Railway.	650,000	5	100	95½	47	1953						
1905	Peking Syndicate Loan for Tao-kow-Chinghua Railway.	700,000	5	..	90	30	1935	35,000	(First instalment due 1916)		700,000	35,000	Government guarantee and revenue of railway.
1905	Hongkong Government Loan for redemption of Canton-Hankow Railway Contract.	1,100,000	4½	..	100	10	1915	14,850	110,000	880,000	220,000	119,900	Opium taxes of Hupeh, Hunan, and Kuangtung.
1907	Franco-Belgian supplementary Loan (Kaifengfu-Honan Railway).	640,000	5	..	90	25	1932	32,000	(First instalment due 1915)		640,000	32,000	Government guarantee and revenue of railway.
1907	British and Chinese Corporation Loan for Canton-Kowloon Railway.	1,500,000	5	100	94	30	1937	75,000	(First instalment due 1920)		1,500,000	75,000	Profits of and mortgage upon the railway.

that it could be sold at par or above, and thus meet the needs for capital on better terms than selling mortgage bonds, and without the necessity of periodic redemption.

GENERAL LOANS OF CHINA

The general loans of China comprise a variety of issues with a variety of securities. Section C of the annexed table gives the dates and details of some of these loans. In addition there must be noted a long list of small loans obtained from the domestic market, through Chinese official banks, and through various ministries, etc. These loans are short-term debts, to be dealt with in the course of current business, and can scarcely be regarded as part of China's national debt.

The total of these debts according to a table compiled by the Minister of Finance in 1913 was:

Domestic short term debts, due by the Central Government		
	Mexican	\$47,475,145
Foreign short term debts due by Central Government		
	Mexican	\$28,890,153
	Total Mexican	\$76,365,298
which at \$.50 per Mexican dollar equals \$38,182,649.		

These short-term debts are generally unsecured and are payable out of the revenues of the Chinese government, not otherwise applied, such as the land tax, shop taxes, and other direct taxes.

It is difficult to obtain reliable data as to the revenues of the Chinese government from these various kinds of taxation. There is reason to believe, however, that large as these revenues are, if honestly collected and accounted for, they would produce enormous sums above the present returns. One of the most important of these sources which has recently been pledged as security for loans by foreigners is the salt tax. In 1912 the Chinese government negotiated with a group of foreign bankers, English, German, French, Russian, Japanese, and American, a reorganization loan agreement to handle practically all of China's indebtedness. This group was known as the "Six-Power group," until the American bankers withdrew at the beginning of the Wilson administration, leaving a "Five-Power group." The loans made by this group were secured not only by the revenues of China not otherwise

C. GENERAL LOANS.

Date.	Title, source, etc.	Principal amount.	Interest per cent.	Price of issue.	Amount received by Chinese Government.	Term of redemption.		Charge (interest) for 1912.	Charge (principal) for 1912.	Principal paid off to Dec. 31st, 1912.	Principal outstanding on Dec. 31st, 1912.	Total charge (interest and principal) for 1912.	Security.
						Years.	Date.						
1900	Anglo-Danish Telegraph Loan ...	£ 210,000	5	5	..	30	1930	£	..	£	..	£	Shanghai-Taku Cable. Chefoo-Taku Cable. Revenue of Peking-Hankow Railway & Kiangsu Grain Commutation Revenue.
1901	Anglo-Danish Telegraph Loan ...	48,000	5	5	..	29	1930	..	..	..	..	..
1911	Japanese Loan to the Ministry of Communications	1,000,000	5.95	5.95	..	25	1936	..	..	..	1,000.00	50,000
1911	Telegraph Loan (Eastern extension and Great Northern Telegraph Companies)	500,000	5	5	..	(38 half-yearly instalments)	1921	(First instalment due, 1921)	Certain Telegraph receipts. Tobacco, wine, production and consumption taxes of the three Manchurian Provinces and the new Salt Surtax of the whole of China.
1911	Currency Reform and Industrial Development Loan (Four Nations Group)	10,000,000	5.95	5.95	95	(Not yet floated)	..	23,957	27,776	41,664	458,336	50,691	
1912	Advances from Sextuple Group	Tls. 12,100,000	5	5	..	..	..	[An advance of £400,000 for Plague and other expenses in Manchuria was made on June 1, 1911.]		..	..	..
1912	Advances from the Belgian Syndicate	£ 1,250,000	9	(Covered by delivery of Treasury Bonds to be repaid from projected Reorganization Loan.)		Net income and property of Peking-Kalgan Railway.
1912	Loan from Messrs. C. Birch Crisp and Co.	5,000,000	5.95	5.95	89	40	1952	..	(First instalment due 1923)	..	5,000,000	250,000	

applied, but it was expressly stated that the salt revenues should serve the loan, and that the Chinese government should reorganize the salt administration for this purpose. To this end the collection of the salt tax was placed under foreign control. The results have been astounding. The net receipts from the salt taxes in 1914 were over \$29,000,000 United States currency, and exceeded the total revenue of the Imperial Maritime customs. Heretofore one third of this sum would have been considered as exaggerated, but it is confidently expected the salt revenue will even exceed these figures for the future.

The salt tax of China requires some explanation. The production of salt is controlled by the Chinese government, which issues permits to produce salt to a group of salt merchants, to each of whom it is permitted to produce a certain specified quantity, and for this privilege he pays to the government a heavy tax. The consumption of salt in China is not per capita larger than in other countries, and the supply from the mountains and the sea is practically unlimited, but the price runs high because the quantity permitted to be marketed is limited. Under the old Chinese régime many abuses crept into the collection of the salt tax. Producers marketed more than their allotment, and paid short duties thereon. Likewise, the clandestine production enormously increased. Under the severe scrutiny of the agents of the bankers, who had loaned on this revenue, these abuses were corrected, and to this only is the greater income from the salt tax to be attributed.

THE LAND TAX OF CHINA

The land tax of China has received heretofore not much attention as possible security for foreign loans. It is estimated that in 1912 the actual receipts from this source by the government were in excess of taels 52,000,000 (which at \$.75 per tael equalled nearly \$40,000,000), but the actual amount collected from the people was seven or eight times that sum. For an American loan now under consideration it has been proposed that the security shall be the land tax, and that this tax, as in the case of the salt tax, shall be collected by foreigners. There is no doubt as to the enormous increase in China's revenue if this could be done, but there will be great difficulty in inducing Chinese officialdom to part with the control of a source of income so fruitful in illicit gain.

FUTURE NEEDS FOR CAPITAL

The needs of China for capital must increase as her internal resources, means of communication, etc., are further developed. Additional capital will be needed for railway development, and for other interior means of communication. There were at the end of 1914 in China, about 6,000 miles of railroads in operation, 2,300 miles under construction, and about 9,000 miles further projected.

This in effect will provide only the main lines of China. The immense local development of railroad construction to connect localities with the main line, and the main lines with one another, must be anticipated.

Highways in China are also destined in the next two decades to demand great development, and this will call for, in fact, is already calling for foreign loans. Outside of the five cities of Shanghai, Tientsin, Peking, Hankow, and Tsingtau, there are no roads suitable for automobile traffic. There are in Shanghai about 150 miles of automobile roads, about 20 miles in Peking, 60 miles in Tientsin; in the suburbs of Tsingtau some miles of country road have been constructed under German influence, and at Peking a motor road, about 12 miles long, connects the city with the summer palace. It is to be noted that for suburban road construction in Peking, two American groups, of which the writer controls one, have contracted with the Chinese government to advance the needed money. This one item of road construction promises a great demand for foreign loans, which will approximate that created by the railways. Motor roads through fertile populous areas will afford good security for foreign loans, especially if the major part of the cost of construction is borne by local taxation as the Chinese authorities propose.

Road construction will lead inevitably to a wide internal development, which will call for heavy foreign advances. If China could borrow for this development as much as she owes for war loans, and indemnities, stupidly incurred, she could put her people far along the road to prosperity.

There is one feature of China's loans that has escaped general attention. China is going to need foreign money in a pronounced degree after the war. To secure this money, she is going to offer favorable contracts, concessions, etc., to representatives of foreign banks and industrial groups. The past financial history of China

leads to the belief that these representatives will be chiefly from those countries now at war in Europe. England, France, Italy, Belgium, Germany, will have no money to lend, but to hold their standing in China, they will neglect no means of finding it. Europe will not readily allow a status in China which it has taken half a century to create to be menaced by a lack of funds. The United States will be called upon to provide these funds. It will then be the duty of American financiers to consider whether to lend money to Europeans to enable them to exploit the China field, or whether it would not be wise to exploit that field themselves.

China affords a brilliant future for the merchant and for the contractor, if they come sufficiently backed financially. The returns will be certain. China in all cases can give satisfactory security for all she borrows. Back of all is the guarantee—better than security—the good faith of the Chinese government which has never yet repudiated a debt.